

[REDACTED]

From: Klain, Ronald A.
Sent: Monday, May 24, 2010 8:05 AM
To: Jarrett, Valerie; Deseve, G. Edward; Deseve, G. Edward
Subject: Re: Wanted to share some concerns about the President's visit to Solyndra: Please keep confidential

We'll look at it. Obviously, if the company were robustly well financed without our help, they wouldn't have needed our funding -- so the "going concern" letter and its inability to file an S1 doesn't worry me per se. That said, we clearly need to make sure that they are stable and solid.

----- Original Message -----

From: Jarrett, Valerie
To: Klain, Ronald A.
Sent: Mon May 24 06:10:33 2010
Subject: Fw: Wanted to share some concerns about the President's visit to Solyndra: Please keep confidential

As you know, a Going Concern letter is not good. Thoughts?

----- Original Message -----

From: Steve Westly [REDACTED]
To: Jarrett, Valerie
Sent: Mon May 24 03:10:53 2010
Subject: Wanted to share some concerns about the President's visit to Solyndra: Please keep confidential

Valerie:

Congratulations on the historic progress the administration has made on health care and financial reform.

We're excited to have the president in San Francisco Tuesday night, and I'm looking forward to seeing him at the dinner for Senator Boxer at [REDACTED]

A number of us are concerned that the president is visiting Solyndra. The press has reported that the company has had to restate earnings--and there is an increasing concern about the company because their auditors, Coopers and Lybrand, have issued a "going concern" letter (See below). Many of us believe the company's cost structure will make it difficult for them to survive long term. The company is burning through capital at a rate of over \$10.0 M per month from Q1-Q3 according to its own S-1 filing--and over \$20 million a month including op ex and cap ex. This is a very large red flag.


A number of their executives are looking for opportunities at other solar companies, and we've heard that the bankers listed on the S-1 (Goldman and Morgan Stanley) do not plan to move forward with the IPO.

Could you perhaps check with DOE to make sure they're comfortable with the company? I just want to help protect the president from anything that could result in negative or unfair press. If it's too late to change/postpone the meeting, the president should be careful about unrealistic/optimistic forecasts that could haunt him in the next 18 months if Solyndra hits the wall, files for bankruptcy, etc.

Lastly, we like the CIGS space, but do not have investments in CIGS related companies.

Thanks.

Steve Westly
Managing Partner
The Westly Group



PS It's this statement in paragraph three that I wanted to draw to your attention

"In fact their auditors Pricewaterhouse Coopers have just issued what's known as a "going concern" opinion about the company."

Silicon Valley Frontlines
In-the-Trenches Consulting to Startup and Emerging Growth Companies

Solyndra's IPO - Not a "Going Concern", But Hoping It's a Big Success!

As I've noted before, there are many companies now in the backlog of IPO's filed but not yet completed. One of them, the cleantech company Solyndra, is worth taking a closer look at because of its rather unique characteristics. This high-profile solar panel business has raised a whopping \$961 million in venture financing since it began and has been in registration since mid-December last year. It's looking to raise about \$300 million from the public offering. Sound like a lot? Well, yes, but they need a lot!

Since introducing it's unique cylindrical components and related panels Solyndra has grown revenues from zero in 2007 to \$6 million in 2008 and to \$100 million in 2009 - astonishing growth but for the unfortunate fact that it still costs the company a lot more to make the panels than they can sell them for. For that \$100m in 2009 revenues it cost them \$162m to manufacture the product - and then another \$115m to develop, market, sell and cover overheads. So for those at home keeping score they spent \$277m to produce that \$100m in revenues. It's still better - relatively speaking - than the \$228m they spent in 2008 to produce just that \$6m in revenues

This is not a typical business, even for the sometimes-extreme Valley! Here's a company whose products are clearly state-of-the-art but where, after raising and spending almost a billion dollars, the true economics of producing and selling them are yet to materialize. In fact their auditors Pricewaterhouse Coopers, have just issued what's known as a "going concern" opinion about the company. To backtrack for a second, all companies looking to go public via an IPO have to file an S-1 registration statement with the SEC which has to include three years worth of detailed, audited financial statements along with an additional two years of summary financial information, assuming the company has been around that long. As part of those statements the auditors issue an opinion, basically saying that those statements fairly represent the historical financial position and results of the business.

While this opinion is largely a rear-view mirror look the auditors are required to do some procedures to determine whether it is able to operate as a "going concern" in the future as a viable stand-alone business. The typical approach - and rule of thumb - is that it is a going concern if it has enough cash on hand to run the business for twelve months from the date of the audit opinion (in essence, the date the auditors sign off on the period they just audited). The auditors won't be able to assume future additional financing (including the IPO) because that may not happen. Nor can they assume some rapid growth or improvement in the business that suddenly makes it cash-flow positive. The most likely thing is that it continues as it just left off in the most recent year. So lets look at some of those numbers.

In the year ended January 2, 2010 it spent \$170m in cash just running its daily operating activities (basically the loss it incurred in selling the \$100m of product plus its operating expenses and various other adjustments). It also had to build it's production facilities and make other capital investments - which totaled another \$175m. So there's almost \$350m - million! - of cash consumed in one year.

How did they finance that, because the money came from somewhere? Well, they raised \$336m in venture financing (part of the \$961m I mentioned above) which included converting some existing loans into equity (an ownership stake), and took on an additional \$140m in debt. That debt is worth looking at - its money they have borrowed against a \$535m loan facility guaranteed by the Department of Energy and is money coming from the Federal government's economic stimulus and recovery commitments. It has to be used for the building of Solyndra's second production plant in the Valley (those of you who regularly travel on Highway 880 in Fremont will see the first plant right by the Eastern side of the road) and which Solyndra itself must finance at least 27% on its own in addition to the DOE guaranteed loans.

At the end of 2009 where did all this leave the company? Well, it had \$50m cash in the bank (it also had \$151m of further cash on the balance sheet, but that cash is restricted and can't be used for regular operations). And the customers who bought the \$100m in products still owed it \$34m in remaining payments for them. Against that it owed \$105m in current liabilities (payments for product costs, purchases, etc) and \$140m in long term debt (the money borrowed above). Not exactly a lot of net cash on hand to pay the existing bills and then run the 2010 operations.

When you look at all the numbers, and you add to that the complexity of the business, the risk factors (their S-1 lists 24 pages of them!) in the technology and the marketplace, then on a pure business analysis you have to agree with the auditors - they are not a going concern. It's also not unusual for a Silicon Valley early stage company (and it is still very early in the development of this technology and it's market) to be in this position. In fact, that's exactly why they need an IPO - to raise the money for growth and to get to cash flow positive from operations. But its pretty unusual for a company to take the step they just did - publishing an open letter to their customers and suppliers to explain why, in their view, this is not a problem.

To take a closer look at their SEC filing, [click here](#).

I'm rooting for this company. It's in the forefront of developing new energy solutions we desperately need. They claim that "by the end of 2012, we will be able to deliver photovoltaic systems that produce electricity on commercial rooftops at rates that are competitive with the retail price of electricity in key markets on a non-subsidized basis". I'd love to see that! They employ 800 people, mostly in the Valley. Many of those people are in manufacturing - a segment hard hit since 2000. That number will increase with their second plant and further production ramp up. This is the kind of business the Valley needs, and needs to be successful. And the country needs the technology.

Still, a lot of people will have to make some pretty big bets to pull this off!